

Issues in Implementing the Pension Standards



New Pension Standards – An Auditor’s Perspective

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Agenda

- Resources
- Cost-Sharing Multiple-Employer Plans
- Agent Multiple-Employer Plans

RESOURCES

Resources

- AICPA has issued 2 White Papers, 1 pending
 - Cost-Sharing Multiple-Employer
Employer and Related Auditor Issues
Census Data Issues
 - Agent Multiple-Employer Plans
Issues Related to Information for Employer
Reporting

Materials Available

- 4 Auditing Interpretations
 - AU-C 500
 - AU-C 600
 - AU-C 805
 - One pending – expected in June
- 2 GASB Implementation Guides
 - GASB 67 - GASB 68
- 2 GASB Toolkits
 - Preparers - Pension Plans

COST-SHARING MULTIPLE-EMPLOYER PLANS

Cost-Sharing Multiple Employer Plans

- Audited financial statements of the plan only include disclosure of the collective net pension liability for the plan as a whole. They do NOT include:
 - Deferred outflows/inflows of resources by category
 - Pension expense
 - Each participating employer's share of collective pension amounts

Cost-Sharing Multiple Employer Plans

- Standard is silent on who (plan or each individual participating employer) should calculate allocation percentages
- Audited financial statements of the plan may not include necessary information to calculate allocation percentages
- Standard provides flexibility in approach to determining allocations
- Standard encourages an allocation method that would be extremely difficult to audit as it is based on projected future contributions

Cost-Sharing Multiple Employer Plans - Deliverables

- VRS will prepare a schedule of employer allocations
 - Actual contributions as allocation method
 - Presented as a stand-alone schedule, **not** included in VRS CAFR
- APA will audit and provide an opinion on that schedule

Cost-Sharing Multiple Employer Plans - Deliverables

- VRS prepares “schedule of pension amounts by employer” for which APA is engaged to provide opinion
 - Schedule includes the following elements for each employer:
 - Net pension liability
 - Deferred outflows of resources by category
 - Deferred inflows of resources by category
 - Pension expense
- An alternative could be to prepare a “schedule of collective pension amounts” (excluding employer specific deferrals) for the plan as a whole

Cost-Sharing Multiple Employer Plans - Deliverables

- APA issues opinion on the employer allocations and on the total of each of the four “elements” in accordance with AU-C 805
 - Net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the sum of all participating entities
 - Restriction on use to appropriate parties

Cost-Sharing Multiple Employer Plans - Deliverables

- APA will consider the appropriateness of the materiality used in the audit of VRS financial statements
 - For audit of a public employee retirement system (PERS) plan financial statements, the audit opinion is provided on the system as a whole (which often includes more than one plan)
 - Audit of plan financial statements effectively has to be performed at a lower level consistent with the “allocation” pool

Cost-Sharing Multiple Employer Plans – Deliverables

Example Opinion

- In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the sum of all participating entities for ABC Pension Plan as of and for the year ended June 30, 20X5, in accordance with accounting principles generally accepted in the United States of America.

Cost-Sharing Multiple Employer Plans – Deliverables

Other Matter

- We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of ABC Pension Plan as of and for the year ended June 30, 20X5, and our report thereon, dated October 15, 20X5, expressed an unmodified opinion on those financial statements.

Cost-Sharing Multiple Employer Plans – Deliverables

Restriction on Use

- Our report is intended solely for the information and use of ABC Plan management, the governing body of ABC Plan, ABC Plan employers and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

Cost-Sharing Multiple Employer Plans – Employer Responsibilities

- **REPORT** - complete and accurate data to VRS
- **EVALUATE**
 - Appropriateness of information used to record financial statement amounts
 - Whether APA's report on schedules are adequate and appropriate for employer purposes
- **VERIFY AND RECALCULATE**
 - Amounts in schedules specific to employer
 - Employer amount used in allocation (numerator)
 - Allocation percentage of employer
 - Allocation of pension amounts

Cost-Sharing Multiple Employer Plans – Employer Auditor Responsibilities

- **DETERMINE** sufficiency and appropriateness of audit evidence
- **EVALUATE** whether APA's report on schedules is adequate and appropriate as evidence
 - Review APA report and any modifications
 - Evaluate competence and independence of APA
 - Determine whether named as specified user
- **VERIFY AND RECALCULATE** amounts in schedules
- **TEST** census data submitted to VRS

Cost-Sharing Multiple-Employer Plans —Testing Underlying Census Data of Active Employees

- At a minimum the AICPA requires that APA follow a risk based approach to select employers for testing
- In practice, we are going to put a new requirement in the Specifications for Audits of Counties, Cities and Towns to require testing and reporting to APA in accordance with AT section 101 (Attest)

Cost-Sharing Multiple-Employer Plans —Testing Underlying Census Data of Active Employees

- APA will provide guidance to the localities CPAs on sample sizes and procedures
- APA will also provide guidance on required reporting and due dates
 - Opinion on relevant assertions related to census data reported to VRS
- APA will rely on the results of this work in completing our work at VRS

AGENT MULTIPLE-EMPLOYER PLANS

Agent Multiple-Employer Plans Issues

- Audited financial statements of the plan do not include actuarial information or each employer's "interest" in the fiduciary net position
- Allocation of fiduciary net position reported by plan to employer is unaudited
- Employers need the following elements to record as of the measurement date:
 - Net pension liability
 - Deferred outflows/inflows of resources by category
 - Pension expense

Agent Multiple-Employer Plans **Issues** (cont.)

- Employer and employer auditor responsible for validating deferred outflows/inflows and pension expense related to individual employer
 - Deferred outflows/inflows resulting from current year can be recalculated from condensed statement of changes in fiduciary net position (by employer) provided by VRS
 - Rely on actuarial report for deferred outflows/inflows related to actuarial experience

Agent Multiple-Employer Plans Solutions – Pension Liability

- VRS actuary will issue a separate actuarial report for each employer which includes net pension liability, deferred outflows/inflows by category and year, pension expense, and discount rate calculation

Agent Multiple-Employer Plans Solutions- Pension Liability (cont.)

Option 1:

- APA issues a SOC 1 (Type 2) report on census data controlled by VRS

Option 2:

- APA issues examination report on VRS management's assertions related to census data controlled by VRS in accordance with AT Section 101

Agent Multiple-Employer Plans Solutions – Fiduciary Net Position

- AICPA recommends VRS prepare a combining schedule of changes in fiduciary net position by employer
- APA would provide an opinion on this schedule as a whole
- APA would ALSO provide a SOC 1 Type 2 report on VRS's internal controls over the calculation and allocation of the inflows and outflows to the employer accounts

Agent Multiple-Employer Plans **Solutions** - **Fiduciary Net Position** (cont.)

- **Report on Schedule (as a Whole)**

We have audited the accompanying combining schedule of changes in fiduciary net position of ABC Pension Plan as of and for the year ended June 30, 20X5, and the related notes.

- **Opinions**

In our opinion, the schedule referred to above presents fairly, in all material respects, the fiduciary net position of ABC Pension Plan as of June 30, 20X5, and the changes in fiduciary net position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Agent Multiple-Employer Plans **Solutions** - **Fiduciary Net Position** (cont.)

- **Other Matter**

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of ABC Pension Plan as of and for the year ended June 30, 20X5, and our report thereon, dated October 15, 20X5, expressed an unmodified opinion on those financial statements.

- **Restriction on Use**

Our report is intended solely for the information and use of ABC Plan management, [*identify the body or individuals charged with governance*], ABC Plan employers as of and for the year ended June 30, 20X5 and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

Agent Multiple-Employer Plans **Solutions** - **Fiduciary Net Position** (cont.)

SOC 1 Type 2 Report

<u>Report Content</u>	<u>Responsibility</u>
Independent Service Auditors' Report	Auditor
Service Organization's Written Assertion	Service Organization
Service Organization's Description of its System	Service Organization
Control Objectives and Related Controls	Service Organization
Tests of Operating Effectiveness	Auditor
Other Information Provided by Service Organization	Service Organization

SOC 1 Type 2 Report—Example Control Objectives – Allocation of Inflows and Outflows of Resources

- **Contributions** – Controls provide reasonable assurance that employee, employer, and supplemental death contributions received from employers are appropriately determined and recorded to the respective employer accounts, in the proper period.
- **Income Allocations**– Controls provide reasonable assurance that income allocations are completely and accurately posted to the employer accounts based on amounts approved by the Board.
- **Distributions** – Controls provide reasonable assurance that distributions (i.e. death, disability, partial lump-sum, and service retirements) are made to eligible beneficiaries, are calculated in accordance with employer plan provisions, and are recorded in the proper account and period.
- **Census Data**– Controls provide reasonable assurance that appropriate and accurate participant census data is provided to the actuary.

Agent Multiple-Employer Plans Solutions - Fiduciary Net Position (cont.)

- Alternative –
VRS prepares “combining schedule of changes in fiduciary net position by employer” for which APA is engaged to provide opinion on schedule as a whole and on each individual employer column

Agent Multiple-Employer Plans – Employer Responsibilities

- **REPORT** - complete and accurate data to VRS
- **EVALUATE**
 - Appropriateness of information used to record financial statement amounts
 - Whether APA's reports on schedule and internal controls are adequate and appropriate for employer purposes

Agent Multiple-Employer Plans – Employer Responsibilities

- **VERIFY & RECALCULATE**
 - Amounts in schedules specific to employer
 - Employer amount used in allocation percentage
 - Allocation percentage of employer
 - Allocation of pension amounts based on allocation percentage of employer

Agent Multiple-Employer Plans – Employer Responsibilities (cont.)

- **SUPPORT**

- Actuarial assumptions with appropriate, reliable and verifiable information
- Underlying census data used by actuary
 - AICPA suggests employer obtain census data file to determine accurate and complete
 - Compare information to underlying payroll records and prior year census data file
 - Obtain roll forward of from one year to the next and review reconciliation
 - Consider relying on work done by APA at the plan level

Agent Multiple-Employer Plans – Employer Auditor Responsibilities

- **DETERMINE** sufficiency and appropriateness of audit evidence
- **EVALUATE** whether APA's report on schedule and SOC 1 (Type 2) report are adequate and appropriate as evidence
 - Review APA reports and any modifications
 - Evaluate competence and independence of APA
 - Determine whether named as specified user
 - Competence, capabilities, and objectivity of the actuary
 - Appropriateness of the actuary's work as audit evidence
 - Whether underlying census data is sufficiently reliable
- **TEST** census data submitted to VRS

Summary

- Still planning stages at state level
- Will continue to populate APA website as more materials are available
- More specific training will be provided as we work through and have more information

Questions

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